



Nkandla Municipality  
(Registration number KZN 286)  
Annual Financial Statements  
for the year ended June 30, 2018

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## General Information

---

### Mayoral committee

Executive Mayor

Cllr AT Ntuli - Mayor

Cllr NFJ Nzuza - Deputy Mayor

Cllr SO Sibiya - Speaker

Cllr BB Dlomo - Exco Member

Cllr BZ Mncadi-Mpanza - Exco Member

Cllr NR Xulu - Exco Member

Councillors

Cllr TP Mncube

Cllr NP Mahaye

Cllr MBE Ntombela

Cllr ZM Mbeje

Cllr TF Nxumalo

Cllr PR Dlamini

Cllr JB Ntuli

Cllr FK Magubane

Cllr TB Mbuyisa

Cllr LM Msimango

Cllr BB Ndimba

Cllr PJ Buthelezi

Cllr NPN Magubane - MPAC Chairperson

Cllr TB Ntombela

Cllr AS Skhakhane

Cllr SV Lushozi

Cllr BS Mbambo

Cllr NP Zulu

Cllr DB Mpungose

Cllr NW Gasa

Cllr MN Mthombeni (Pass on during the year)

Grading of local authority

2

Accounting Officer

Mr LS Jili

Chief Finance Officer (CFO)

Mr S Ntombela

Registered office

Private Bag x 161

Nkandla

3855

Business address

Maree Road, Lot 292

Nkandla

Bankers

FNB

Auditors

Auditor General of South Africa

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Index

---

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

<b>Index</b>	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 10
Accounting Policies	11 - 26
Notes to the Annual Financial Statements	27 - 53

### Abbreviations

GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
INEP	Intergrated National Electrification Programme
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers

# **Nkandla Municipality**

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## **Accounting Officer's Responsibilities and Approval**

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to June 30, 2019 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

I also certify that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page s 5 to 53, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018 and were signed on its behalf by:

---

**Mr LS Jili**  
**Accounting Officer**

# **Nkandla Municipality**

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## **Auditor's Report**

---

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Position as at June 30, 2018

	Note(s)	2018 R	2017 Restated* R
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from non-exchange transactions	8	2,968,586	3,987,910
VAT receivable	10	1,464,433	3,026,320
Overpayments	6	-	299,139
Receivables from exchange transactions	7	7,183,087	5,209,915
Cash and cash equivalents	11	1,512,771	806,935
		<b>13,128,877</b>	<b>13,330,219</b>
<b>Non-Current Assets</b>			
Investment property	3	4,969,528	5,201,018
Property, plant and equipment	4	358,508,817	353,580,540
Intangible assets	5	657,254	1,055,050
		<b>364,135,599</b>	<b>359,836,608</b>
<b>Total Assets</b>		<b>377,264,476</b>	<b>373,166,827</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	14	21,800,028	26,594,496
Unspent conditional grants and receipts	12	1,742,146	1,990,606
Provisions	13	51,207	63,897
		<b>23,593,381</b>	<b>28,648,999</b>
<b>Non-Current Liabilities</b>			
Provisions	13	7,272,115	6,653,273
<b>Total Liabilities</b>		<b>30,865,496</b>	<b>35,302,272</b>
<b>Net Assets</b>		<b>346,398,980</b>	<b>337,864,555</b>
Accumulated surplus		346,398,980	337,864,555

\* See Note 36

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Financial Performance

	Note(s)	2018 R	2017 Restated* R
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	15	10,449,201	9,329,143
Rental of facilities and equipment	16	973,611	677,768
Interest on consumer debtors		1,303,432	1,895,671
Other income	17	1,075,305	620,358
Interest received - investment	18	834,708	663,980
<b>Total revenue from exchange transactions</b>		<b>14,636,257</b>	<b>13,186,920</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	19	20,776,805	18,834,654
<b>Transfer revenue</b>			
Government grants & subsidies	21	112,350,301	125,217,142
<b>Total revenue from non-exchange transactions</b>		<b>133,127,106</b>	<b>144,051,796</b>
<b>Total revenue</b>		<b>147,763,363</b>	<b>157,238,716</b>
<b>Expenditure</b>			
Employee related costs	22	(43,426,643)	(40,336,969)
Remuneration of councillors	23	(8,973,443)	(8,044,661)
Depreciation and amortisation	24	(14,267,137)	(12,164,993)
Impairment loss/ Reversal of impairments	25	-	(141,675)
Lease rentals on operating lease	31	(3,921,995)	(3,766,842)
Debt Impairment	26	(3,058,084)	(4,237,564)
Bulk purchases - Electricity	27	(11,075,818)	(12,721,485)
Contracted services	28	(8,440,383)	(10,071,789)
Grant expenditure	20	-	(7,435,551)
General Expenses	29	(45,835,570)	(45,074,878)
<b>Total expenditure</b>		<b>(138,999,073)</b>	<b>(143,996,407)</b>
<b>Operating surplus</b>		<b>8,764,290</b>	<b>13,242,309</b>
Surplus or (Loss) on disposal of assets		67,998	863,377
Assets written-off		(297,864)	(25,228)
		<b>(229,866)</b>	<b>838,149</b>
<b>Surplus for the year</b>		<b>8,534,424</b>	<b>14,080,458</b>

\* See Note 36

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Changes in Net Assets

	Accumulated surplus R	Total net assets R
<b>Balance at July 1, 2016</b>	<b>313,424,815</b>	<b>313,424,815</b>
Changes in net assets		
Prior period errors	10,359,282	10,359,282
Net income (losses) recognised directly in net assets	10,359,282	10,359,282
Surplus for the year	14,080,458	14,080,458
Total recognised income and expenses for the year	24,439,740	24,439,740
Total changes	24,439,740	24,439,740
<b>Restated* Balance at July 1, 2017</b>	<b>337,864,556</b>	<b>337,864,556</b>
Changes in net assets		
Surplus for the year	8,534,424	8,534,424
Total changes	8,534,424	8,534,424
<b>Balance at June 30, 2018</b>	<b>346,398,980</b>	<b>346,398,980</b>
Note(s)		

\* See Note 36



# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Cash Flow Statement

	Note(s)	2018 R	2017 Restated* R
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		33,670,536	27,650,486
Grants		112,101,843	124,281,923
Interest income		834,708	663,980
		<u>146,607,087</u>	<u>152,596,389</u>
<b>Payments</b>			
Employee costs		(52,400,086)	(48,417,022)
Suppliers		(73,462,081)	(67,347,531)
		<u>(125,862,167)</u>	<u>(115,764,553)</u>
<b>Net cash flows from operating activities</b>	32	<b><u>20,744,920</u></b>	<b><u>36,831,836</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(20,039,084)	(40,652,084)
Proceeds from sale of property, plant and equipment	4	-	1,198,001
Purchase of other intangible assets	5	-	(1,052,631)
<b>Net cash flows from investing activities</b>		<b><u>(20,039,084)</u></b>	<b><u>(40,506,714)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>705,836</b>	<b>(3,674,878)</b>
Cash and cash equivalents at the beginning of the year		806,935	4,481,813
<b>Cash and cash equivalents at the end of the year</b>	11	<b><u>1,512,771</u></b>	<b><u>806,935</u></b>

\* See Note 36

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	17,667,000	(2,000,000)	<b>15,667,000</b>	10,449,201	<b>(5,217,799)</b>	1
Rental of facilities and equipment	720,000	-	<b>720,000</b>	973,611	<b>253,611</b>	2
Interest on consumer debtors	1,950,000	200,000	<b>2,150,000</b>	1,303,432	<b>(846,568)</b>	3
Other income	962,000	-	<b>962,000</b>	1,075,305	<b>113,305</b>	
Interest received - investment	2,400,000	(1,200,000)	<b>1,200,000</b>	834,708	<b>(365,292)</b>	4
<b>Total revenue from exchange transactions</b>	<b>23,699,000</b>	<b>(3,000,000)</b>	<b>20,699,000</b>	<b>14,636,257</b>	<b>(6,062,743)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	18,338,000	-	<b>18,338,000</b>	20,776,805	<b>2,438,805</b>	5
----------------	------------	---	-------------------	------------	------------------	---

##### Transfer revenue

Government grants & subsidies	112,016,000	-	<b>112,016,000</b>	112,350,301	<b>334,301</b>	
-------------------------------	-------------	---	--------------------	-------------	----------------	--

<b>Total revenue from non-exchange transactions</b>	<b>130,354,000</b>	<b>-</b>	<b>130,354,000</b>	<b>133,127,106</b>	<b>2,773,106</b>	
---	--------------------	----------	--------------------	--------------------	------------------	--

<b>Total revenue</b>	<b>154,053,000</b>	<b>(3,000,000)</b>	<b>151,053,000</b>	<b>147,763,363</b>	<b>(3,289,637)</b>	
----------------------	--------------------	--------------------	--------------------	--------------------	--------------------	--

#### Expenditure

Employee costs	(41,841,000)	-	<b>(41,841,000)</b>	(43,426,643)	<b>(1,585,643)</b>	6
Remuneration of councillors	(9,071,000)	(550,000)	<b>(9,621,000)</b>	(8,973,443)	<b>647,557</b>	7
Depreciation and amortisation	(6,500,000)	(2,500,000)	<b>(9,000,000)</b>	(14,267,137)	<b>(5,267,137)</b>	8
Lease rentals on operating lease	-	-	-	(3,921,995)	<b>(3,921,995)</b>	9
Bad debts written off and Debt impairment	-	-	-	(3,058,084)	<b>(3,058,084)</b>	10
Bulk purchases	(14,000,000)	-	<b>(14,000,000)</b>	(11,075,818)	<b>2,924,182</b>	11
Contracted Services	(22,479,000)	-	<b>(22,479,000)</b>	(8,440,383)	<b>14,038,617</b>	12
Transfer and grants	(819,000)	-	<b>(819,000)</b>	-	<b>819,000</b>	13
General Expenses	(28,077,000)	(2,000,000)	<b>(30,077,000)</b>	(45,835,570)	<b>(15,758,570)</b>	14

<b>Total expenditure</b>	<b>(122,787,000)</b>	<b>(5,050,000)</b>	<b>(127,837,000)</b>	<b>(138,999,073)</b>	<b>(11,162,073)</b>	
--------------------------	----------------------	--------------------	----------------------	----------------------	---------------------	--

<b>Operating surplus</b>	<b>31,266,000</b>	<b>(8,050,000)</b>	<b>23,216,000</b>	<b>8,764,290</b>	<b>(14,451,710)</b>	
--------------------------	-------------------	--------------------	-------------------	------------------	---------------------	--

Gain on disposal of assets and liabilities	-	-	-	67,998	<b>67,998</b>	
--	---	---	---	--------	---------------	--

Assets written-off	-	-	-	(297,864)	<b>(297,864)</b>	
--------------------	---	---	---	-----------	------------------	--

	-	-	-	<b>(229,866)</b>	<b>(229,866)</b>	
--	---	---	---	------------------	------------------	--

<b>Surplus before taxation</b>	<b>31,266,000</b>	<b>(8,050,000)</b>	<b>23,216,000</b>	<b>8,534,424</b>	<b>(14,681,576)</b>	
--------------------------------	-------------------	--------------------	-------------------	------------------	---------------------	--

<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>31,266,000</b>	<b>(8,050,000)</b>	<b>23,216,000</b>	<b>8,534,424</b>	<b>(14,681,576)</b>	
--	-------------------	--------------------	-------------------	------------------	---------------------	--

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual R	Reference
	R	R	R	R	R	

**The Variances of less than 10% in revenue are considered to be immaterial while all variances in expenditure are considered material and reasons for variances are provided below on these basis.**

(1) Service charges - Municipality adopted a credit control and debt collection policy. A resolution was taken where this has to be strictly applied. This led to municipality budgeting for increase revenue in other sources related to service charges like re-connection fees, metre upgrades, etc. The municipality during budget also considered the new Shoprite supermarket and Umfolozi TVET College which would both increase our service charges income. Controls have also been implemented where amongst prepaid customers where a customer does not buy electricity over a period of time, technician would investigate and this resulted in increased prepaid electricity sales and decreased electricity theft.

(2) The adherence to credit control and debt collection policy resulted in some tenants being removed from facilities and new agreements signed with paying tenants. This increased our overall revenue from rental of facilities.

(3) Interest on consumer debtors decrease as result of implementation of vigorous credit control and debt collection policy and as result the number of customers in arrears decreased.

(4.) Interest on investment - Municipality received interest on investment from temporary investment of grants especially capital grants. In 2017/2018 financial year, a huge portion of MIG was only transferred to municipality towards the end of financial year and therefore municipality losing interest which could have been earned.

(5) This is due to Section 78 of the MPRA. which allows for a change of market value of property at anytime during the year. which result in the increase in rates from vudgeted amount..

(6.) Employee related costs - Municipality incurred large expenditure on overtime, acting allowances which were unforeseen during budget preparation.

(7) Remuneration of Councillors - The budgeted amount is in-line with Gazette issued on 15 December 2017 No. 41335 for determination of upper limits.

(8) Depreciation and amortisation - The budget amount took into consideration assets there were going to be disposed and from which no depreciation would be recognised and those assets had not been disposed off as thereafter there was a change in intention to dispose them. Those assets continued to be used as normal.

(10) Impairment loss and reversal of impairment loss - During Quarter assets verification, there was no indication for impairment on any assets and therefore no budget was allocated.

(11) Lease rentals on operating lease - the amount was mistakenly budgeted under contracted services, therefore it was misallocated.

(12) Bulk purchases - Municipality has been billed by Eskom on a higher tariff and the budget was based on that tariff. Eskom identified the error and bills currently on a new lower tariff resulting in variances.

(13) Contracted services - Contracted services budget includes misallocations from other expenditure accounts e.g lease rentals and general expenditure.

(14) General expenditure - Expenditures falling on this category have been misallocated to contracted services during budget preparation and therefore creating large variances.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

#### Provision for landfill site

The entity has an obligation to rehabilitate its landfill site in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square metre, the monitoring cost per square metre, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value to represent the time value of money.

#### Other provisions

The municipality's other provisions consist of a provision for leave pay and a provision for long service award. Provisions are measured as the present value of the estimated future outflows required to settle the obligation.

Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

#### Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payments history and risk profile. The municipality firstly assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not significant.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.5 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one accounting period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

---

Item	Average useful life in years
Infrastructure	
• Roads and paving	30
• Pedestrian malls	30
• Electricity	20-80
Community	
• Buildings	30
• Recreational facilities	20-30
• Security	5
Other	
• Buildings	30
• Other vehicles	5
• Office Equipment	3-7
• Furniture and fittings	7-10
• Bins and containers	5
• Other items of plant and equipment	2-5
• Landfill sites	15

---

The municipality assesses at each reporting date whether there is any indication that the municipality's expectations about the residual value and the useful life of an asset have changed since the preceeding reporting. If any such indication exists, the municipality revises the expected the useful life and/or residual value accordingly. The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.5 Property, plant and equipment (continued)

In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indications:

- (a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed;
- (b) The use of the asset has changed, because of the following:
  - (i) The municipality has changed the manner in which the asset is used.
  - (ii) The municipality has changed the utilisation rate of the asset.
  - (iii) The municipality has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used.
- (iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
- (v) Legal or similar limits placed on the use of the asset have changed.
- (vi) The asset was idle or retired from use during the reporting period.
- (c) The asset is approaching the end of its previously expected useful life.
- (d) Planned repairs and maintenance on, or refurbishments of, the asset and /or its significant components either being undertaken or delayed.
- (e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
- (f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (g) The asset is assessed as being impaired in accordance with GRAP 21 and GRAP 26.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. The entity recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity and the cost or fair value of the asset can be measured reliably.

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.6 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Intangible assets consist of computer software.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, internally generated	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial assets at amortised cost.
- Financial liabilities measured at amortised cost.
- Financial instruments at fair value.

#### Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their components parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value plus in case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to acquisition or issue.

Transaction costs on financial instruments at fair value are recognised in surplus or deficit.



# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.7 Financial instruments (continued)

#### Subsequent measurement

Financial instruments at fair value are subsequently measured at fair value, with gains and losses arising from changes in fair value being included in surplus or deficit for the period.

Financial assets and liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit.

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as financial assets at amortised cost.

#### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at amortised cost.

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

# **Nkandla Municipality**

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## **Accounting Policies**

---

### **1.8 Leases (continued)**

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.9 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.10 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service. The cost of short-term employee benefits are recognised as expense in the period in which the service is rendered and are not discounted.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.10 Employee benefits (continued)

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Contributions to Natal Joint Pension Fund are as follows:-

Provident: 83 Members 7% Council 13.65%

Retirement: 11 Members 8.65% Council 38.37%

Superannuation: 8 Members 9.25% Council 21.63%

### 1.11 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 34.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.12 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments are measured at the value of the contract less amount incurred.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements.

### 1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### Service Charges

Service charges revenue relating to refuse removal is recognised on a monthly basis in arrears by applying the approved tariff.

Service charges relating to electricity are based on consumption. Meters are read on regular basis and revenue is recognised when billed. Provisional estimates of consumption are made when meter readings can not be done. Prepaid electricity is recognised based on the approved tariffs.

Service charges revenue relating to other services is recognised on a monthly basis in arrears by applying the approved tariff.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.13 Revenue from exchange transactions (continued)

#### Interest

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.14 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

#### Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

#### Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.14 Revenue from non-exchange transactions (continued)

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expenditure has been incurred and to the extent that any other restrictions have been complied with.

### 1.15 VAT

The municipality accounts for Value Added Tax on the payments basis.

### 1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.



# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Accounting Policies

---

### 1.22 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2017 to 30/06/2018.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.23 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

As a minimum, the following are regarded as related parties of the municipality:

- (a) A person or a close member of that person's family is related to the reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity;
  - (iii) or is a member of the management of the entity or its controlling entity.
- (b) An entity is related to the reporting entity if any of the following conditions apply:
  - (i) the entity is a member of the same economic entity (which means that each controlling entity, controlled entity, and fellow controlled entity is related to others);
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - (iii) both entities are joint ventures of the same third party;
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - (vi) the entity is controlled or jointly controlled by a person identified in (a); and
  - (vii) a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.24 Events after reporting date

Events after the reporting date that have been classified as adjusting events are accounted for in the annual financial statements. Events after the reporting date that are classified as non-adjusting events are disclosed in the notes to the annual financial statements.

# **Nkandla Municipality**

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## **Accounting Policies**

---

### **1.25 Grant expenditure**

Grant expenditure refers to expenditure incurred by the municipality to deliver services funded by grants received from National and Provincial Government. Grant expenditure includes only operational grants which are conditional. Grant expenditure is only recognised as expenditure when the full conditions of the grant have been complied with. To the extent that the grant is not fully utilised at year end, an unspent conditional grant liability is disclosed.

### **1.26 Bulk purchase**

Bulk purchase expenditure refers to bulk electricity purchased from Eskom and consumed during the year. Expenditure on bulk purchase is recognised as electricity is consumed and electricity not consumed at year end if any is recognised as inventory. At each reporting date, the municipality determines electricity distribution losses and are included in bulk purchases and disclosed separately.

### **1.27 Contracted services**

Contracted services refer to expenditure contracted to external service providers over an agreed period of time. A contracted service is recognised as expenditure when the external service provider renders services to the municipality as agreed "in terms of accrual basis of accounting".

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
--	-----------	-----------

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 18: Segment Reporting</li></ul>	April 1, 2017	Not Applicable
<ul style="list-style-type: none"><li>GRAP 21 (as amended in 2015): Impairment of non cash generating assets</li></ul>	April 1, 2017	Impact is not material
<ul style="list-style-type: none"><li>GRAP 26 (as amended in 2015): Impairment of cash generating assets</li></ul>	April 1, 2017	Impact is not material

#### 2.2 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
---------------------------	--	------------------

#### 2.3 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2018 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>GRAP 20: Related Parties</li></ul>	April 1, 2019	The impact is not material
<ul style="list-style-type: none"><li>GRAP 32: Service Concession Arrangements: Grantor</li></ul>	April 1, 2019	The impact is not material
<ul style="list-style-type: none"><li>GRAP 108: Statutory Receivables</li></ul>	April 8, 2019	The impact is not material
<ul style="list-style-type: none"><li>GRAP 17 (as amended 2015): Property, Plant and Equipment</li></ul>	April 1, 2019	The impact is not material
<ul style="list-style-type: none"><li>GRAP 109: Accounting by principals and Agents</li></ul>	April 1, 2019	The impact is not material

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
--	-----------	-----------

### 3. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	6,955,451	(1,985,923)	4,969,528	6,955,451	(1,754,433)	5,201,018

#### Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	5,201,018	(231,490)	4,969,528

#### Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	5,432,507	(231,489)	5,201,018

#### Pledged as security

There was no investment property pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	99,388,940	-	99,388,940	100,645,940	-	100,645,940
Furniture and office equipment	2,757,217	(1,743,358)	1,013,859	2,687,089	(1,527,500)	1,159,589
Computer equipment	2,708,725	(1,976,660)	732,065	2,662,117	(1,714,656)	947,461
Community Assets	77,145,777	(13,640,756)	63,505,021	70,343,335	(11,297,395)	59,045,940
Work in progress	55,976,892	-	55,976,892	49,274,666	-	49,274,666
Electrical infrastructure	12,869,620	(4,315,166)	8,554,454	12,640,268	(3,473,828)	9,166,440
Machinery and equipment	6,225,270	(1,801,487)	4,423,783	3,522,913	(1,276,834)	2,246,079
Transport assets	1,852,547	(1,338,147)	514,400	2,276,125	(1,218,136)	1,057,989
Solid Waste Infrastructure	2,892,562	(1,821,992)	1,070,570	2,892,562	(1,607,878)	1,284,684
Road infrastructure	144,724,119	(31,945,466)	112,778,653	141,378,836	(23,526,573)	117,852,263
Other Assets	13,891,683	(3,341,503)	10,550,180	13,766,504	(2,867,015)	10,899,489
<b>Total</b>	<b>420,433,352</b>	<b>(61,924,535)</b>	<b>358,508,817</b>	<b>402,090,355</b>	<b>(48,509,815)</b>	<b>353,580,540</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Newly identified assets	Transfers	Disposal	Assets Written Off	Depreciation	Total
Land	100,645,940	-	-	-	(1,257,000)	-	-	99,388,940
Furniture and Office Equipment	1,159,589	64,191	71,497	-	-	(5,193)	(276,225)	1,013,859
Computer equipment	947,461	54,721	9,633	-	-	-	(279,750)	732,065
Community Assets	59,045,940	-	-	6,802,443	-	-	(2,343,362)	63,505,021
Work in progress	49,274,666	17,079,303	-	(10,377,077)	-	-	-	55,976,892
Electrical Infrastructure	9,166,440	-	-	229,352	-	-	(841,338)	8,554,454
Machinery and Equipment	2,246,079	2,715,869	783	-	-	(8,053)	(530,895)	4,423,783
Transport Assets	1,057,989	-	-	-	-	(284,620)	(258,969)	514,400
Solid Waste Infrastructure	1,284,684	-	-	-	-	-	(214,114)	1,070,570
Road Infrastructure	117,852,263	-	-	3,345,282	-	-	(8,418,892)	112,778,653
Other Assets	10,899,489	125,000	-	-	-	-	(474,309)	10,550,180
	<b>353,580,540</b>	<b>20,039,084</b>	<b>81,913</b>	<b>-</b>	<b>(1,257,000)</b>	<b>(297,866)</b>	<b>(13,637,854)</b>	<b>358,508,817</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Derecognition	Assets Written Off	Depreciation	Impairment loss	Total
Land	102,116,940	-	(310,500)	-	(1,160,500)	-	-	-	100,645,940
Furniture and Office Equipment	1,432,956	100,061	-	-	-	(12,511)	(316,403)	(44,514)	1,159,589
Computer equipment	1,040,742	315,952	(18,566)	-	-	(11,994)	(370,700)	(7,973)	947,461
Community	57,247,061	-	-	4,043,751	-	-	(2,244,872)	-	59,045,940
Work in progress	63,940,975	38,529,666	-	(49,776,635)	-	(3,419,340)	-	-	49,274,666
Electrical infrastructure	10,050,466	-	-	-	-	-	(884,026)	-	9,166,440
Machinery and equipment	1,827,670	1,005,593	-	-	-	(723)	(534,048)	(52,413)	2,246,079
Transport assets	1,373,497	-	(5,558)	-	-	-	(307,700)	(2,250)	1,057,989
Solid waste infrastructure	1,498,798	-	-	-	-	-	(214,114)	-	1,284,684
Road infrastructure	85,626,824	-	-	38,297,334	-	-	(6,037,370)	(34,525)	117,852,263
Other assets	10,672,210	700,812	-	-	-	-	(473,533)	-	10,899,489
	<b>336,828,139</b>	<b>40,652,084</b>	<b>(334,624)</b>	<b>(7,435,550)</b>	<b>(1,160,500)</b>	<b>(3,444,568)</b>	<b>(11,382,766)</b>	<b>(141,675)</b>	<b>353,580,540</b>



# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
--	-----------	-----------

### 4. Property, plant and equipment (continued)

#### Pledged as security

There was no property, plant and equipment pledged as security.

#### Property, plant and equipment that is being constructed/ developed:

Included in property, plant and equipment are property that have been identified as taking significantly longer period of time to complete than expected, due to the following:

-

#### Nkethabaweli-Manzawayo

The accumulative expenditure has amounted to R5 421 786. The contract between the Municipality and the contractor has been terminated.

#### Thaleni-Vimbimbobo Electrification

The accumulative expenditure has amounted to R9 928 058. The Contractor is busy with construction and is awaiting for ESKOM to energise.

#### Mvutshini Electrification

The accumulative expenditure has amounted to R3 201 314. The project is on hold due to financial constraints, the municipality did not receive the grant from the department of energy.

#### Masololo Electrification

The accumulative expenditure has amounted to R4 765 984. awaiting for eskom to energize.

#### Esixhokolo Electrification

The accumulative expenditure has amounted to R1 916 335. There was miscalculation on the document and the contractor amount was without VAT, this was discovered by the municipality did not have enough funds to cover the cost.

#### Ntshiza Electrification

The accumulative expenditure has amounted to R7 812 352. The project is on hold due to financial constraints, the municipality did not receive the grant from the department of energy.

#### Nhlosane Electrification

The accumulative expenditure has amounted to R13 262 183. The project is on hold due to financial constraints, the municipality did not receive the grant from the department of energy.

### Repairs and maintenance

#### Property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity (Carrying amount)

Contracted Services	4,765,282	2,122,965
Materials	1,655,555	1,302,597
Electrical Infrastructure	4,444,248	-
Employee Costs	1,053,125	993,514
	<b>11,918,210</b>	<b>4,419,076</b>

### Reconciliation of Work-in-Progress 2018

Infrastructure	55,976,892	63,940,975
----------------	------------	------------

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
--	-----------	-----------

### 5. Intangible assets

	2018			2017		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2,564,953	(1,907,699)	657,254	2,564,952	(1,509,902)	1,055,050

#### Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	1,055,050	(397,796)	657,254

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Amortisation	Total
Computer software	553,160	1,052,631	(550,741)	1,055,050

#### Pledged as security

There were no intangible assets pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 6. Overpayments

Overpayments to suppliers	1,561,287	1,514,811
Less: Provision	(1,561,287)	(1,229,763)
<b>Sundry debtors</b>	<b>-</b>	<b>285,048</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>7. Receivables from exchange transactions</b>		
<b>Gross Balances</b>		
Electricity	4,629,021	3,170,538
Sundry	2,816,865	2,913,436
Refuse	5,560,149	5,344,037
Other	1,441,878	1,570,178
	<b>14,447,913</b>	<b>12,998,189</b>
<b>Less: Allowances for credit impairment</b>		
Electricity	(1,129,266)	(1,397,734)
Sundry	(445,870)	(1,685,529)
Refuse	(4,961,343)	(3,992,879)
Other	(728,347)	(712,133)
	<b>(7,264,826)</b>	<b>(7,788,275)</b>
<b>Net Balance</b>		
Electricity	3,499,755	1,772,804
Sundry	2,370,995	1,227,906
Refuse	598,806	1,351,159
Other	713,531	858,046
	<b>7,183,087</b>	<b>5,209,915</b>
<b>Reconcillation of allowance for credit impairment</b>		
Balance at beginning of the year	(7,788,275)	(6,675,324)
Contributions for impairment	523,449	(1,112,951)
	<b>(7,264,826)</b>	<b>(7,788,275)</b>
<b>8. Receivables from non-exchange transactions</b>		
Rates - Gross Balance	13,081,399	10,256,061
Add back: Credit balance in debtors	158,636	813,936
	<b>13,240,035</b>	<b>11,069,997</b>
<b>Less: allowance for credit impairment</b>		
Rates	(10,271,449)	(7,082,087)
<b>Net Balances</b>		
Rates	2,968,586	3,987,910
<b>Reconcillation of allowances for credit impairment</b>		
Balance at Beginning of the year	(7,082,087)	(4,433,658)
Contribution to allowance	(3,189,362)	(2,648,429)
	<b>(10,271,449)</b>	<b>(7,082,087)</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>9. Consumer Debtors by Classification</b>		
<b>Consumers</b>		
Current (0-30 days)	290,362	118,510
31-60 Days	130,190	117,016
61-90 Days	126,145	109,124
91-180+days	7,712,324	6,868,722
	<b>8,259,021</b>	<b>7,213,372</b>
<b>Business</b>		
Current (0-30 days)	1,040,841	342,278
31-60 days	192,839	224,700
61-90 days	111,391	155,040
91-180+days	3,255,168	3,573,446
	<b>4,600,239</b>	<b>4,295,464</b>
<b>State Owned</b>		
Current (0-30 days)	2,568,511	328,409
31-60 days	103,460	150,409
61-90 days	(159,173)	105,301
91-180+days	6,217,575	4,618,939
	<b>8,730,373</b>	<b>5,203,058</b>
<b>Other</b>		
Current (0-30 days)	116,808	158,700
31-60 days	72,166	124,573
61-90 days	59,196	55,466
91-180+days	5,691,508	4,061,748
	<b>5,939,678</b>	<b>4,400,487</b>
<b>Total</b>		
Current (0-30 days)	4,016,523	3,089,769
31-60 days	498,655	616,697
61-90 days	137,559	424,930
91-180+days	22,876,575	19,122,855
Add back: Credit balaAdd back: Credit balances in debtors	158,636	813,936
Less: Impairments	(17,536,275)	(14,870,362)
	<b>10,151,673</b>	<b>9,197,825</b>

### Consumer debtors past due but not impaired

Other Consumer debtors debtors which are 3 months past due are not considered to be impaired. At 30 June 2018 R 1,580,444 - (2017: R 4,229,971)

1 month past due	729,472	2,697,998
2 month past due	577,502	753,123
3 month past due	273,470	778,850
	<b>1,580,444</b>	<b>4,229,971</b>

## Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

### Notes to the Annual Financial Statements

	2018 R	2017 R
<b>10. VAT receivable</b>		
VAT	1,464,433	3,026,320

Nkandla Municipality accounts for VAT on cash basis.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>11. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	2,083	5,370
Bank and cash	1,510,688	801,565
	<b>1,512,771</b>	<b>806,935</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2018	June 30, 2017	June 30, 2016
FNB Primary Bank Account - 62720610717	817,711	-	-	817,711	-	-
ABSA - Account 4053858355	184,957	652,992	4,402,554	184,957	652,992	4,409,461
FNB - Cheque Account - 62720611286	324,570	-	-	324,570	-	-
ABSA - Call Account 9104679851	-	1,627	69	-	1,627	69
ABSA MIG Call Account - 9108997407	529	11,432	621	2,294	11,432	621
ABSA MIG Conditional Call Account - 9287118398	-	1,228	1,156	-	1,228	1,156
ABSA Conditional Account - 9132397071	-	46,587	44,741	-	46,587	44,741
ABSA DOE Call Account - 9287118576	78,394	74,014	12,125	78,394	74,014	12,125
ABSA EPWP Call Account - 9287118801	96,185	1,073	1,010	96,185	1,073	1,010
ABSA MSIG Call Account - 9287117928	1,081	8,154	7,677	1,080	8,154	7,677
ABSA - FMG Call Account - 9287118110	5,497	3,229	1,010	5,497	3,229	1,010
ABSA Investment account - 9287138394	-	1,228	1,156	-	1,228	1,156
Petty Cash	-	-	-	2,083	5,371	2,707
Direct deposit Clearing	-	-	-	-	-	79
Cash Customer Control	-	-	-	-	-	1
<b>Total</b>	<b>1,508,924</b>	<b>801,564</b>	<b>4,472,119</b>	<b>1,512,771</b>	<b>806,935</b>	<b>4,481,813</b>

### 12. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Cyber Cadet Grant	222,530	34,847
Qedisimo Grant	1,447,676	1,447,676
Library Grant	71,940	508,083
	<b>1,742,146</b>	<b>1,990,606</b>

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 21 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

					2018 R	2017 R
<b>13. Provisions</b>						
<b>Reconciliation of provisions - 2018</b>						
	Opening Balance	Additions	Acturial Gain/(loss) recognised	Interest Cost/Finance Charges	Service Cost	Total
Environmental rehabilitation	5,264,170	-	-	242,152	-	5,506,322
Long service award - short term	63,897	(12,690)	-	-	-	51,207
Long service award - long term	1,389,103	(43,310)	42,000	135,000	243,000	1,765,793
	<b>6,717,170</b>	<b>(56,000)</b>	<b>42,000</b>	<b>377,152</b>	<b>243,000</b>	<b>7,323,322</b>
<b>Reconciliation of provisions - 2017</b>						
	Opening Balance	Additions	Acturial Gain/(Loss) recognised	Interest cost/Finance Charges	Service cost	Total
Environmental rehabilitation	4,940,563	-	-	323,607	-	5,264,170
Long service award - short term	30,832	33,065	-	-	-	63,897
Long service award - long term	1,254,000	(99,897)	(133,000)	112,000	256,000	1,389,103
	<b>6,225,395</b>	<b>(66,832)</b>	<b>(133,000)</b>	<b>435,607</b>	<b>256,000</b>	<b>6,717,170</b>
Non-current liabilities					7,272,115	6,653,273
Current liabilities					51,207	63,897
					<b>7,323,322</b>	<b>6,717,170</b>

### Environmental rehabilitation provision

The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at 6.55% over an average period of 5 years.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>13. Provisions (continued)</b>		
<b>Long service award provision</b>		
In line with the guidelines of the Bargaining Council, the municipality remunerates its employees for the long service rendered to the municipality. The estimates of the present obligation are determined through the use of Actuarial expertise. Such estimates are reviewed annually at the end of each financial year. The finance cost and actuarial gains/losses are recognised directly in the statement of financial performance.		
The municipality offers bonuses for every 5 years of completed service from 10 to 45 years. Long service accumulated leave must be taken within one year of receiving such leave or wholly or partially cashed. In most cases employees exercise the option to wholly convert their accumulative leave bonus days into cash.		
<b>Key assumptions (%)</b>		
Discount rate	9.54%	
CPI	6.03%	
Salary increase rate	7.03%	
Net Discount Rate	2.35%	
Mortality	SA85-90	
Normal Retirement age	63	
<b>14. Payables from exchange transactions</b>		
Trade payables	10,232,667	11,369,787
Payments received in advanced	348,909	2,329,209
Other payables	124,493	2,217,802
Accrued leave pay	3,644,280	2,988,106
Accrued bonus	1,054,876	920,704
Retentions	6,394,803	6,768,888
	<b>21,800,028</b>	<b>26,594,496</b>
<b>15. Service charges</b>		
Sale of electricity	9,685,875	8,594,655
Refuse removal	763,326	734,488
	<b>10,449,201</b>	<b>9,329,143</b>
<b>16. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	733,962	614,086
<b>Facilities and equipment</b>		
Rental of facilities	239,649	63,682
	<b>973,611</b>	<b>677,768</b>



# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>17. Other income</b>		
Burial fees	8,251	9,082
Connection fees	465,691	83,441
Donations received	108,413	-
Housing plan	-	3,781
Library fees	28,180	22,241
Lindela Thusong Services	-	15,789
Temparing fees	3,984	52,965
Taxi and bus licences	3,648	12,897
Tender monies	238,141	104,954
Plan submission	20,307	109,282
Recoveries from employees	7,225	26,857
Rates clearance certificates	825	678
Electricity meter upgrade	12,077	18,947
Disconnection fees	-	5,842
Sale of land	78,730	116,564
Penalties and fines	13,086	35,349
Advertising billboards	4,835	1,689
Newly identified asset	81,912	-
	<b>1,075,305</b>	<b>620,358</b>
<b>18. Investment revenue</b>		
<b>Interest revenue</b>		
Interest from current account	654,908	528,991
Interest on investment	179,800	128,484
Interest from SARS	-	6,505
	<b>834,708</b>	<b>663,980</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>19. Property rates</b>		
<b>Rates</b>		
Property rates	23,211,744	21,775,754
Less: Income forgone	(2,434,939)	(2,941,100)
	<b>20,776,805</b>	<b>18,834,654</b>

### Valuations

Agriculture	56,000	56,000
Business	111,655,000	82,525,000
Place of worship	1,870,000	1,870,000
Residential	78,953,000	76,033,000
State trust land	115,590,000	115,590,000
State owned properties	515,421,000	443,140,000
Vacant land	11,839,500	12,652,000
Protected area	11,000,000	11,000,000
Specialised non-market properties	22,130,000	79,630,000
Public service infrastructure	95,000	95,000
Public Benefit Organisations	11,235,000	11,235,000
	-	5,600,000
	<b>879,844,500</b>	<b>839,426,000</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The new general valuation was supposed to be effected on 01 July 2017 but the municipality was granted an extension by the MEC and the next general valuation will be effected on 01 July 2019.

A fixed rate is applied:

Agriculture: 0.0029c in the Rand

Business: 0.0346 in the Rand

Place of worship: 0.0201 in the Rand

Residential: 0.0119 in the Rand

State trust land: 0.0028 in the Rand

State owned properties: 0.0369 in the Rand

Vacant Land: 0.0178 in the Rand

Public Benefit Organisation: 0.0030 in the Rand

State Trust Land: 0.0030 in the Rand

Multiple Use Property: 0.0346 in the Rand

Protected area: Nil

Specialised non-market properties: Nil

Public service infrastructure: Nil

The following rebate rates are applied:

100% of market value of Ingonyama Trust Land

100% of market value residential properties less than R80 000

100% of market value of worshipping properties

First R80 000 on any residential properties

40% of market value less exemption for owners who are eligible pensioners.

### 20. Grant expenditure

#### Other subsidies

Grant expenditure realised	-	7,435,551
----------------------------	---	-----------

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>21. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	82,435,000	79,169,000
Expanded Public Works Programme Grant	3,210,000	2,149,000
Financial Management Grant	1,900,000	1,825,000
Cybercadet Grant	395,318	232,808
Library Grant	1,154,144	1,016,210
LGSETA	85,839	112,255
Facility Grant	-	750,000
E-Learning Grant	-	167,230
	<b>89,180,301</b>	<b>85,421,503</b>
<b>Capital grants</b>		
Electrification Grant	-	18,000,639
Municipal Infrastructure Grant	23,170,000	21,795,000
	<b>23,170,000</b>	<b>39,795,639</b>
	<b>112,350,301</b>	<b>125,217,142</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
In terms of the Division of Revenue Act an amount of R82 435 000 was gazetted to be received. An amount of R82 435 000 was received.		
<b>Cyber Cadet Grant</b>		
Balance unspent at beginning of year	34,847	88,655
Current-year receipts	583,000	179,000
Conditions met - transferred to revenue	(395,317)	(232,808)
	<b>222,530</b>	<b>34,847</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Finance Management Grant</b>		
Current-year receipts	1,900,000	1,825,000
Conditions met - transferred to revenue	(1,900,000)	(1,825,000)
	-	-
Conditions still to be met - remain liabilities (see note 12).		
<b>E-Learning Grant</b>		
Balance unspent at beginning of year	-	167,230
Conditions met - transferred to revenue	-	(167,230)
	-	-
Conditions still to be met - remain liabilities (see note 12).		

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>21. Government grants and subsidies (continued)</b>		
<b>Electrification Grant</b>		
Balance unspent at beginning of year	-	640
Current-year receipts	-	18,000,000
Conditions met - transferred to revenue	-	(18,000,640)
	-	-
Conditions still to be met - remain liabilities (see note 12).		
<b>Facility Grant</b>		
Balance unspent at beginning of year	-	750,000
Conditions met - transferred to revenue	-	(750,000)
	-	-
Conditions still to be met - remain liabilities (see note 12).		
<b>Municipal Infrastructure Grant</b>		
Current-year receipts	23,170,000	-
Conditions met - transferred to revenue	(23,170,000)	21,795,000
Other	-	(21,795,000)
	-	-
Conditions still to be met - remain liabilities (see note 12).		
Provide explanations of conditions still to be met and other relevant information.		
<b>EPWP Grant</b>		
Current-year receipts	3,210,000	2,149,000
Conditions met - transferred to revenue	(3,210,000)	(2,149,000)
	-	-
<b>Qedisimo Projects</b>		
Balance unspent at beginning of year	1,447,676	1,447,676
Conditions still to be met - remain liabilities (see note 12).		
<b>Library Grant</b>		
Balance unspent at beginning of year	508,083	460,294
Current-year receipts	718,000	1,064,000
Conditions met - transferred to revenue	(1,154,143)	(1,016,211)
	71,940	508,083
Conditions still to be met - remain liabilities (see note 12).		

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>22. Employee related costs</b>		
Basic	27,021,937	25,323,873
Bonus	2,172,127	1,951,258
Medical aid - company contributions	1,623,772	1,404,730
UIF	229,965	198,337
SDL	440,736	387,198
Leave pay provision charge	1,053,739	735,192
Standby allowance	270,450	264,888
Pension contributions	3,448,479	3,373,477
Travel, motor car, accommodation, subsistence and other allowances	5,376,449	5,031,011
Overtime payments	530,632	459,120
Long-service awards	391,504	250,102
Acting allowances	427,522	457,810
Housing benefits and allowances	80,821	190,831
Industrial council	23,219	10,675
Cellphone allowance	27,600	15,200
Group life insurance	307,691	283,267
	<b>43,426,643</b>	<b>40,336,969</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	642,710	421,170
Car Allowance	260,220	116,494
Contributions to UIF, Medical and Pension Funds	-	41,691
Other	-	190,420
Other	34,137	5,345
	<b>937,068</b>	<b>775,120</b>
<b>Remuneration of Chief Financial Officer</b>		
Annual Remuneration	619,262	615,520
Car Allowance	250,717	205,173
Other	34,386	7,274
	<b>924,365</b>	<b>827,967</b>
<b>Remuneration of Director of Community Services</b>		
Annual Remuneration	-	382,083
Car Allowance	-	163,749
Acting Allowance	427,377	-
Other	-	145,563
	<b>427,377</b>	<b>691,395</b>
<b>Remuneration of Director of Technical Services</b>		
Annual Remuneration	600,071	575,653
Car Allowance	232,385	148,025
Bonuses	78,332	-
Housing allowance	24,788	98,683
Other	16,552	40,805
	<b>952,118</b>	<b>863,166</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>22. Employee related costs (continued)</b>		
<b>Remuneration of Director of Corporate Services</b>		
Annual Remuneration	601,739	548,030
Car Allowance	207,938	231,629
Bonuses	33,300	-
Other	32,599	53,309
	<b>875,576</b>	<b>832,968</b>
<b>23. Remuneration of councillors</b>		
Executive Major	840,208	777,647
Deputy Mayor	399,507	291,481
MPAC Chairperson	367,538	305,825
Speaker	399,507	461,606
Councillors	5,837,421	5,506,737
Executive Committee	1,129,262	701,365
	<b>8,973,443</b>	<b>8,044,661</b>
<b>In-kind benefits</b>		
The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor is entitled to stay at the mayoral residence owned by Council at no cost.		
The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.		
The Mayor has three full-time bodyguards . The Deputy Mayor and speaker have two full-time bodyguards.		
<b>24. Depreciation and amortisation</b>		
Property, plant and equipment	13,637,851	11,382,763
Investment property	231,489	231,489
Intangible assets	397,797	550,741
	<b>14,267,137</b>	<b>12,164,993</b>
<b>25. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	141,675
During the physical verification of the assets, certain assets were identified to be in a poor condition and thus an impairment was recognised accordingly.		
<b>26. Debt impairment</b>		
Debt impairment	2,997,438	3,761,382
Bad debts written off	60,646	476,182
	<b>3,058,084</b>	<b>4,237,564</b>
<b>27. Bulk purchases</b>		
Electricity	11,075,818	12,721,485

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>28. Contracted services</b>		
Information Technology Services	1,202,661	1,651,036
Internal Audit Fees	1,278,959	1,585,855
Security services	5,958,763	6,834,898
	<b>8,440,383</b>	<b>10,071,789</b>
<b>29. General expenses</b>		
Advertising	4,705,921	5,342,730
Auditors remuneration	1,953,171	1,806,407
Bank charges	88,800	81,639
Cleaning	89,908	241,198
Consulting and professional fees	8,381,572	9,624,376
Consumables	-	1,348
Commission	7,350	619,752
Sport & recreation	1,494,705	918,347
Entertainment	-	65,135
Fines and penalties	34,427	219,260
Indigent burial	436,399	361,493
Community safety	24,520	935,660
Plant hire - road maintenance	2,625,215	899,169
Insurance	337,531	293,232
Community development	7,346,123	4,955,841
Bursaries	787,058	96,272
Repairs and maintenance - Electricity Infrastructure	4,444,248	-
Contracted services - repairs and maintenance	2,116,567	2,327,016
Material - repairs and maintenance	1,690,746	1,106,659
Packaging	242,152	323,607
Social services	30,605	-
Fuel and oil	1,455,061	1,303,514
Printing and stationery	422,820	474,535
Library and information services	229,861	201,189
Software expenses	86,681	278,156
Staff welfare	112,177	2,690,017
Subscriptions and membership fees	505,857	500,000
Telephone and fax	1,042,800	1,380,020
Training	463,174	466,570
Water	399,534	527,285
Sewerage and waste disposal	428,236	162,279
Uniforms	304,430	692,815
Travelling and accommodation	945,916	1,155,740
Youth development	498,225	1,546,942
Free basic electricity	161,920	616,756
Local economic development	1,289,438	2,182,580
Spatial planning	124,376	3,594
Provincialisation	218,379	446,638
Traffic unit	109,669	193,683
Strategic planning	199,998	26,460
Other expenses	-	6,964
	<b>45,835,570</b>	<b>45,074,878</b>
<b>30. Auditors' remuneration</b>		
Fees	1,953,171	1,806,407

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>31. Operating lease</b>		
Lease rentals on operating lease	3,921,995	3,766,842
Operating leases are in respect of leasing of printing machines from Capital Office. Refer to note 33 on additional lease commitment information.		
<b>32. Cash generated from operations</b>		
Surplus	8,534,424	14,080,458
<b>Adjustments for:</b>		
Depreciation and amortisation	14,267,137	12,164,993
Surplus or (loss) on disposal of assets	(67,998)	(863,377)
Impairment deficit	-	141,675
Debt impairment	3,058,084	4,237,564
Movements in provisions	606,152	491,775
Grant expenditure realised	-	7,435,557
Newly Identified assets	(81,912)	-
Prior period errors	-	1,276,885
Assets Written Off	297,866	25,228
Release of Prepayment on land disposal	1,325,000	-
<b>Changes in working capital:</b>		
Consumer debtors	(5,031,256)	(3,461,631)
Other receivables from non-exchange transactions	1,019,324	(555,605)
Overpayments	299,139	(299,139)
Payables from exchange transactions	(4,794,467)	(3,361,427)
VAT	1,561,887	6,442,769
Unspent conditional grants and receipts	(248,460)	(923,889)
	<b>20,744,920</b>	<b>36,831,836</b>



# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
<b>33. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Electrification	30,879,749	24,497,532
• Infrastructure assets	6,052,788	8,974,059
	<b>36,932,537</b>	<b>33,471,591</b>
<b>Not yet contracted for and authorised by accounting officer</b>		
• Infrastructure assets	30,833,333	1,158,500
<b>Total capital commitments</b>		
Already contracted for but not provided for	36,932,537	33,471,591
Not yet contracted for and authorised by accounting officer	30,833,333	1,158,500
	<b>67,765,870</b>	<b>34,630,091</b>

### Authorised operational expenditure

This committed expenditure relates to assets and will be financed by available grant funding, retained surpluses, existing cash resources, funds internally generated, etc.

### Operating leases - as lessee (expense)

<b>Minimum lease payments due</b>		
- within one year	1,813,989	1,867,681
- in second to fifth year inclusive	1,681,532	3,398,338
	<b>3,495,521</b>	<b>5,266,019</b>

Operating lease payments represent rentals payable by the municipality for vehicles and computer equipment. Leases are negotiated for an average term of three years and rentals of vehicles and computer equipment with contingent rentals payable.

### 34. Contingencies

The following cases against the municipality are still pending and management consider them as contingent liability:

Ulungeni Consulting Engineers v Nkandla Municipality. The municipality is the defendant in this Civil matter. The municipality is sued for R281 954,76. We have filed our plea, currently waiting for a replication.

.

### 35. Related parties

Relationships

Management remuneration

Council remuneration

Refer to employee related costs note 22

Refer to remuneration of councilors note 23

### 36. Prior period errors

1. Through detailed review and reconciliation of the trade payables ledger balances, suppliers module and confirmation with suppliers; the municipality discovered that there were numerous misstatements on the trade payables ledger balances. Such misstatements are mainly attributable to duplicate transactions and other invoices that were captured incorrectly on the accounting system. Consequently the trade and other payables account balances was misstated in the prior years.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 36. Prior period errors (continued)

2. Through detailed review of the municipal assets; the municipality discovered that the park which belonged to the municipality was not recognised in the books of the municipality. Therefore it is apparent that the Infrastructure/Community assets were understated while accumulated surplus was understated in the prior years.

3. Through detailed review and reconciliation of the Work in Progress account balance; the municipality noted that the account balance included certain expenditure relating to repairs and maintenance of electrical infrastructure. This error resulted to overstatement of the Work in Progress account balance and understatement of repairs and maintenance expense in the prior year.

4. Through a deeds search, the municipality noted that the account balance for land included an amount of land which did not belong to the municipality.

The effect of the errors on the prior year balances is reflected below:

#### Statement of financial position

Property, plant and equipment	9,082,395
Payables from Exchange Transaction	1,276,887
Opening Accumulated Surplus or Deficit	(10,359,282)

	Previously reported	Adjustment	Restated Balance
Property Plant and Equipment	344,498,145	9,082,395	353,580,540
Payables from exchange transactions	(27,871,383)	1,276,887	(26,594,496)
Accumulated Surplus	(327,505,273)	(10,359,282)	(337,864,555)
	<b>(10,878,511)</b>	<b>-</b>	<b>(10,878,511)</b>

#### Statement of Financial Performance

Depreciation expense	-	(475,208)
----------------------	---	-----------

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

	2018 R	2017 R
--	-----------	-----------

### 37. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position - extract

	Comparative figures previously reported	After reclassification
Infrastructure	172,402,409	-
Buildings	10,899,488	-
Plant and machinery	2,246,079	-
Landfill site	1,284,684	-
Motor vehicles	1,057,989	-
Furniture and fixtures	1,159,589	-
Furniture and office equipment	-	1,159,589
Machinery and equipment	-	2,246,079
Other assets	-	10,899,488
Road infrastructure	-	117,852,263
Transport assets	-	1,057,990
Electrical infrastructure	-	9,166,440
Community assets	-	45,383,705
Solid waste infrastructure	-	1,284,684
<b>Total</b>	<b>189,050,238</b>	<b>189,050,238</b>

#### Statement of financial performance - extract

	Comparative figures previously reported	Reclassification	After reclassification
Contracted Services	(8,485,934)	(1,585,855)	(10,071,789)
General expenses	(46,660,733)	1,585,855	(45,074,878)
<b>Total</b>	<b>(55,146,667)</b>	<b>-</b>	<b>(55,146,667)</b>

### 38. Risk management

#### Financial risk management

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

#### Current liabilities

Trade and other payables from exchange transactions	21,800,028	26,594,495
Unspent conditional grants	1,742,146	1,990,606
Provision for long term service award	51,207	63,897
	<b>23,593,381</b>	<b>28,648,998</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Consumer debtors comprise of a large number of ratepayers dispersed across different sectors and geographical areas. Management evaluated credit risk relating to customers on an ongoing basis. Credit exposure is managed by application of the municipality's policies regarding credit control and debt collection. The municipality has made a provision for doubtful debts in accordance to its policies. The carrying amount of financial assets is the maximum exposure to credit risk in relation to these assets.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2018	2017
Trade and other receivables from exchange transactions	7,183,087	5,209,015
Trade and other receivables from non-exchange transactions	2,968,586	3,987,910
Cash and cash equivalents/bank balances	1,512,771	806,935

### 39. Going concern

We draw attention to the fact that at June 30, 2018, the municipality's current liabilities exceed its current assets by R 10,464,504 and creditors exceeds cash in the bank. The municipality will improve its revenue enhancement by collection of revenue. The municipality will also ensure that the cost containment policy is strictly applied to ensure that expenditure is aligned with its budget.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 40. Events after the reporting date

There were no events after the reporting date.

### 41. Unauthorised expenditure

Opening balance	25,311,542	3,308,672
Current year movement - actual expenditure exceeds budget	11,162,073	20,822,199
Uncashed Conditional Grants	229,375	1,180,671
	<b>36,702,990</b>	<b>25,311,542</b>

### 42. Fruitless and wasteful expenditure

Opening Balance	2,023,650	407,670
Fruitless and wasteful expenditure current year not condoned	70,293	69,639
Interest charged on eskom account - current year (not condoned)	77,240	31,530
Overpayments to suppliers	46,476	1,514,811
	<b>2,217,659</b>	<b>2,023,650</b>

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 43. Irregular expenditure

Opening balance	76,128,076	60,647,202
Add: Irregular Expenditure - current year	10,735,520	15,480,874
	<b>86,863,596</b>	<b>76,128,076</b>

Irregular expenditure relates to procurement of goods and services without following proper supply chain management processes. Irregular expenditure has been submitted to council and the council referred it to the MPAC for investigation.

### 44. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	500,000	-
Current year subscription / fee	500,000	500,000
Other invoices	6,657	-
	<b>1,006,657</b>	<b>500,000</b>

#### Audit fees

Opening balance	42,440	95,994
Current year subscription / fee	2,154,796	2,222,984
Amount paid - current year	(2,155,152)	(2,276,538)
	<b>42,084</b>	<b>42,440</b>

#### PAYE and UIF

Opening balance	1,130,614	(82,629)
Current year subscription / fee	7,683,645	6,864,935
Amount paid - current year	(8,814,259)	(5,651,692)
	<b>-</b>	<b>1,130,614</b>

#### Pension and Medical Aid Deductions

Opening balance	466,180	-
Current year subscription / fee	9,103,909	7,889,169
Amount paid - current year	(9,571,548)	(7,422,989)
	<b>(1,459)</b>	<b>466,180</b>

#### VAT

VAT receivable	1,464,433	3,026,320
----------------	-----------	-----------

Nkandla Municipality accounts for VAT on cash basis.

All VAT returns have been submitted by the due date throughout the year.

# Nkandla Municipality

(Registration number KZN 286)

Annual Financial Statements for the year ended June 30, 2018

## Notes to the Annual Financial Statements

Figures in Rand

### 45. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations. The deviations for 2018 - R 1 819 064 amounted to (2017 - R1 435679.96).

### 46. Surplus / (Loss) on disposal of asset

Surplus/ (loss) on disposal of assets	(1,490,621)	863,377
---------------------------------------	-------------	---------

### 47. Electricity Distribution Losses

Electricity distribution loss in rand value	3,987,962	2,493,984
---	-----------	-----------

The electricity losses in units for 2018 -1,788,283 Kwh (2017 - 5,356,520 Kwh). This constituted a 16.3% (2017 - 36.6%) loss which is above the norm of 6%-12%